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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000096

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TAGS: ECON EFIN IZ

SUBJECT: MINISTER OF FINANCE SUPPORTS JOINT ECONOMIC PLAN

REF: A. BAGHDAD 31
B. BAGHDAD 26

Classified By: Deputy Chief of Mission Daniel V. Speckhard for reasons 1.4 (b) and (d).

¶1. (C) Summary: The Treasury Attache and the Economic Minister- Counselor met with the Minister of Finance, Bayan Jabr (Shi'a - SCIRI) on January 8 to discuss the Joint Economic Transition Plan. Senior staff at the Ministry of Finance also attended the meeting. Minister Jabr said he supported the plan as long as the Iraqi contributions were based on the allocations in the draft budget already submitted to the Council of Representatives. He agreed that joining military and economic efforts was important, as was the coordination of Iraqi and US activities. The Minister also discussed steps for improving budget execution, the 2007 draft budget and the \$1B soft loan from Iran.

Support for the Joint Economic Transition Plan

¶2. (C) Minister Jabr received the draft Joint Economic Transition Plan from Barham Salih on the night of Sunday, January 7. He had reviewed it, and wanted to confirm that all of the Iraqi contributions were already included in the 2007 budget, which has already been submitted to the CoR (ref A). Once we assured him that all of the numbers were based on the Iraqi budget, he agreed with the overall framework of the plan. He agreed with the importance of addressing security and economic problems at the same time, and noted that he would be saying the same thing in his speech on January 9 at the Council of Representatives (CoR).

¶3. (C) Executing the Iraqi budget is the core Iraqi contribution in the Joint Plan, and Minister Jabr said that it was his top priority. He said that he has ordered separate accounts for capital projects for each ministry in order to track the monthly spending. Currently, all funds, both operating and capital, are deposited in a single account. He expects a first report on budget execution rates in March 2007. The Ministry of Finance (MoF) will hold seminars for officials on tracking capital budget spending. The draft budget law also stipulates that any under-spending ministry will lose the unspent portion of 37.5 percent of the budget after six months. While Jabr described these funds as to be reallocated in a supplemental budget, the draft budget law appears to contemplate the reallocation being accomplished through MoF action. Post will seek further information. Minister Jabr said that a major problem with budget execution in 2006 was the ministers' lack of experience. He welcomed post's assistance and instructed his staff to provide regular access to information.

The 2007 Budget: Speech at the CoR, Fuel Prices, and SOEs

¶4. (C) During the meeting, one of the senior ministry staff left to continue working on Minister Jabr's speech at the plenary session of Council of Representatives on January 9. This speech is part of a series of meetings held by ministry officials to present and explain the budget to the CoR.

¶5. (C) As requested by the IMF, there is no allocation for fuel import subsidies in the 2007 budget. The only budget item for fuel imports was \$300M for kerosene for the poor, and an allocation for fuel imports for electricity generation of roughly \$150M. The Ministry of Oil will import and sell the fuel at market prices and there should be no net affect to the budget. Minister Jabr said that he was committed to removing the subsidies from domestic fuel production and increasing fuel prices. He said that Minister of Oil Husayn al Shahristani was resisting the change, but in the end he would have to accept the new prices.

¶6. (C) Both the minister and his senior staff noted that State Owned Enterprises (SOE's) are a drain on the national budget. Deputy Minister Dr. Azez said that \$1B dollars is wasted every year on SOE's, and he supported giving SOE's to the employees at each company. The Minister of Finance mentioned the Brinkley Initiative, and reiterated his promise to provide \$5M in low interest loans to the initiative.

\$1 Billion Loan from Iran

¶7. (C) The Minister of Finance raised the \$1B loan from Iran without prompting, saying that we might be interested in it. When he went to Iran to sign the Memorandum of Understanding,

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the Iranians tried to get him to agree to pay for the Iranian extension of roads and electrical lines to the border with Iraq, but he refused. In the end they still agreed to the low-interest loan, which will be spent on a highway from the Iranian border to Kut, electricity for Sulaymaniyah, Diyala and Basrah, and schools and hospitals. The relevant ministries will be responsible for selecting and implementing projects. This funding agreement is subject to approval by the CoR, and a request is included in the budget law (ref B).
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